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A GREAT NATIONAL SERVICE

HOW LIFE INSURANCE HAS DISCHARGED ITS DUTY
TO THE NATION

BY

JOHN B. LUNGER

Vice-President, Equitable Life Assurance Society, New York



An address delivered at the Twelfth Annual Meeting of the
ASSOCIATION OF LIFE INSURANCE PRESIDENTS

At New York, December 6, 1918

27 Feb. 1920 - E. R. W.

A GREAT NATIONAL SERVICE

NOW LIFE INSURANCE HAS DISCHARGED ITS DUTY TO THE NATION

By JOHN B. LUNGER

Vice-President, The Equitable Life Assurance Society, New York

AN ADDRESS DELIVERED AT THE TWELFTH ANNUAL MEETING OF THE
ASSOCIATION OF LIFE INSURANCE PRESIDENTS IN
NEW YORK CITY, ON DECEMBER 6, 1918

Through the love of justice, the genius and the valor of the American people they have recently inscribed a most glorious page in the record of human progress. In a noble spirit of unselfishness and sacrifice they have given generously of their blood and treasure to insure the integrity of their country and the life, liberty and happiness of the generations to come.

Americans are justly proud of this sublime achievement in the service of humanity. And it is obvious that they stand ready to lend a patient ear to a friendly message from any American institution which through its teachings and service in peace and in war has contributed to the grand result.

Life insurance is such an institution, and if I may venture to suggest briefly the salient points of its message that should reach every American home at this time it would be along the following lines:

TO THE AMERICAN PEOPLE—A MESSAGE OF SERVICE

The days of *post-war* readjustment are here. You will now undertake, not only to restore the normal balance, but to make such adaptations in methods, habits and opinions as may be necessary to meet the changed conditions. In some directions you are starting anew in the eternal search for truth, justice and understanding. Will you not permit one of these directions to

be toward a clearer comprehension of life insurance—not in its detail, but as an institution? It seeks no special privilege, no encomiums for the performance of its plain duty. It simply asks for a correct public understanding of the nature and extent of its service to Society and to the Nation, to the end that it may meet with fair judgments from public opinion and public authorities. This public knowledge will be of especial value to you in the so-called readjustment period when confusion of mind resulting from agitation, haste, and the bacillus of Bolshevism may, at times, divert our law-givers from the path of wisdom.

It is not enough that each of you should know of the benefits of life insurance to the individual. That you willingly concede. You should appreciate the great part it is taking in the mighty drama of our national life. It is not sufficient that you should recognize its help in the *material* progress of our country. You should also know of its contribution to the *morale* of the nation—and to the exalted spirit of self-sacrifice for the benefit of posterity which you have so gloriously demonstrated in the great war.

THE AMERICAN SPIRIT

You have observed life insurance develop into a national service institution of the first magnitude. Through its teachings of thrift it has become your financial bulwark against adversity, and through the accumulations of your thrift, an important economic prop of the nation. It not only protects the helpless, but it relieves anxiety, develops stamina and self-respect, and builds character. It has sharpened our sense of justice and service to the weak and unfortunate, and helped shape our national character accordingly. It has encouraged and aided in the development of the American spirit of self-reliance, of courage in the battle of life, and of devotion to family and home which lie at the foundation of our national greatness.

Clearly you have given life insurance your good will and confidence because it has earned it and deserves it. But it deserves more than this. It should have your active moral support in its efforts to advance. You should be ready and willing to commend it and if necessary to defend it against the misconceptions of the uninformed. Thus you will help to extend its usefulness to the citizen, to the nation, and to posterity.

Let us briefly note some of the more specific reasons for asking this unanimous moral support. Let us stand back far

enough to get a better perspective, that you may see the nature and magnitude of the service of this great humanizing organization in its true proportions.

There it stands, the most colossal institution for savings and mutual protection of all history—a mighty monument to the unselfish thrift of you, the American people. The American companies are more than twice as large as all the other life insurance institutions of the world combined. You built them. You own them. It is important that you know at least the important features of their structure.

A MIGHTY SAVINGS INSTITUTION

Bear in mind that life insurance is an institution of savings and protection and not an ordinary commodity-selling, profit-making, commercial enterprise. The receipts from all sources must be returned to the depositors or their beneficiaries minus the cost of operation. You have as a result of your insurance savings over six billion dollars in the form of assets which with your future deposits guarantee the ultimate payment of over twenty-seven billions of dollars of life insurance. From this mighty reservoir of assets there flows a never-ending golden stream into the homes of our country, aggregating two million dollars per day.

The so-called dividends to policyholders are simply the return or refund of savings not needed for expenses or for protecting your contracts.

The surplus is the sum held over and above all liabilities to guard against impairing contingencies. This is the safety cushion that absorbs the shock of unforeseen losses or financial demands due to war, epidemics, depreciation of values, etc. Its need is shown by the recent epidemic of influenza and pneumonia which has resulted in death claims of not less than fifty millions of dollars.

The companies which conduct these vast operations are not commercial in spirit or organization. Nor do they represent vast accumulations of capital as is so often charged by the uninformed. They are in truth vast accumulations of people combining together for mutual advantage and protection. The numbers of outstanding policies of such people have increased from twenty-five millions to fifty millions in the past ten years alone. If the assets of the companies were divided amongst the policyholders the average cash value of each policy outstanding would

be in the ordinary companies only \$393, and in the industrial companies, only \$36.

Life insurance differs from other savings institutions in a very important particular. It does not wait for the spirit to move people to save and to deposit their savings. It maintains a vast army of thrift missionaries who are constantly engaged in personal visits and appeals to the people in the interests of rational economy to save for the rainy day and to deposit their insurance savings. Yesterday and today and every day this year approximately 7,000 promises to save for ordinary insurance and 26,000 promises for industrial insurance will be signed by our people as a result of the efforts of these tireless crusaders for home protection. An idea of the labor involved in this service can be gained from the fact that it takes approximately 90,000 calls on individuals each day to secure these new promises to save and the first deposit of insurance savings thereon.

Do you know of any other organization that is doing as much or more to encourage prudence, economy and the protection of the State through the protection of the home? You do not because there is none other.

IN A CLASS BY ITSELF

The institution of life insurance is in a distinct class by itself. If justice is done, you will never confuse it or classify it with other corporations or institutions when considering questions of national service, of taxation, of legislation, or of public policy. And yet we find it taxed to the extent of millions of dollars mostly on the theory that it is an ordinary commercial business, designed purely for profit. You have every reason to admire and to sustain your great institution of life insurance. The brains and energy of its managers have not only built it firmly but are constantly expanding its service to the individual and to the nation. Errors in practice and in management have been eliminated as fast as discovered. Steadily, cautiously, safely, this great savings institution has been erected and protected through the stormy, hazardous early years of its existence. It has been successfully guided through the stress of wars, scandals, panics, and epidemics without impairment of solvency or the increasing of rates. It has the most effective State supervision of any private enterprise. It has advanced until today it stands forth unchallenged as to its security, efficiency or honesty of management. So sound and solid is its foundation that even the

shock of the world's greatest war could not shake it. It is not, therefore, surprising that you have come to regard a life insurance policy in a responsible company as safe and certain of payment as a government bond.

These are facts well worth knowing about a great and popular American institution. They are easily obtained, easily understood and should be a part of the ordinary education of every American.

And yet the extent of the misunderstanding—not only of insurance itself—but of the simple fundamentals of the organization, its funds, and its national service is almost unbelievable. This lack of understanding is found not only among the uneducated element, but among business men, educators and especially among lawmakers where it often leads to injustice.

WRONG NOTIONS CORRECTED

An instance may be cited where this misunderstanding becomes harmful.

The heads of two important committees of Congress have referred in a deprecatory way to what they termed the "vast wealth of life insurance companies." They also have advocated the return to the policyholders of the surplus or emergency reserve.

The fact that life insurance companies own no wealth was unknown to them, and that the great bulk of the assets are reserves required by law and held to protect depositors and which are returned in due course to the owners or beneficiaries, seemed to be news to them. They did not realize that if these assets were returned to depositors they would average, as already shown, only about \$393 for ordinary policies and about \$36 for industrial policies. They seemed wholly unaware that these small average individual savings of the holders of over fifty million policies were performing the extraordinary national service of securing the current payments on over twenty-seven billion dollars of life insurance protection to the American people. Their criticism seemed to point to the belief that life insurance assets were piled up in vaults in idle cash and that surplus has no protective or valuable function.

Absurd as this seems yet there are a vast number of people who do not know that every dollar of life insurance assets not needed in the operation of the enterprise is promptly put to work in properly secured loans to farmers and other property owners, to railroads, public utilities and other enterprises, and to the

local, state and national governments to be used in public improvements. Therefore, your insurance savings while insuring your lives are also performing a great national service in assisting in the development of the commerce and resources of the nation. The interest of American policyholders in railroads alone aggregates one and a half billion dollars through investment of insurance funds in railroad securities.

It is important that you should know these things for you will find many occasions to use them to the advantage of yourself and your country.

The men who have been building and developing the American institution of life insurance have prepared it to meet successfully the stress of almost any unforeseen emergency however sudden or serious it may be. Witness its stability, and its great service to the nation, under the stress of the world war. Here is a golden opportunity for you, American People who believe in Safety First, to compare the wisdom of the life insurance companies in maintaining a surplus or safety fund to guard the reserves against extraordinary emergencies, with the suggestion of the two lawmakers already referred to that this surplus be depleted and distributed to the policyholders.

MEETING GREAT WAR EMERGENCIES

The great war found the companies prepared to perform a most valuable national service, one important form of which was to meet new and extraordinary financial burdens.

Virtually all outstanding insurance on American men could be carried into the war without an extra premium charge. The companies, therefore, stood to pay out large sums in excess war mortality not provided for in peace rates.

The influenza epidemic caused deaths which, based on Washington estimates, may number more than 350,000 lives, and calling for vast expenditures for unexpected death claims.

Another war strain placed upon life companies is the temporary depreciation in the value of assets in first-class securities, a shrinkage which must be met when necessary to sell any of them.

In addition the companies were obliged to meet increased operating expenses, and also to meet the unwritten obligation of increasing annually the volume of insurance protection to the public with forces greatly reduced and shattered by withdrawals for military service.

When our Government and the Allies appealed for vast loans to help win the war the life companies were called upon to make quick and extraordinary financial adjustments. This summons was met by the purchase of Liberty Loan bonds to the extent of 589 millions of dollars, and before we entered the war of approximately 100 millions of Canadian, English and French loans.

There are no less than 100,000 people engaged in life insurance work in various sections of the United States. A call was made for the services of this patriotic army of life insurance employees and agents to leave their work and help solicit for war loans and war charities. Thus the greatest field army of thrift crusaders in the world was organized under the leadership of the companies and of the National and local Life Underwriters Associations for intensive solicitation in every city, town and hamlet in the land, and even in the isolated homes in the rural districts. In consequence of this activity sales of bonds, aggregating not less than \$500,000,000 were made and substantial amounts were raised for the Red Cross, Y.M.C.A., K. of C., Jewish Welfare Board and allied organizations.

From information received from the leading companies, I have estimated that officers, clerks and agents to the number of 8,500 enlisted for service in the ranks. Over 190 are serving in Red Cross, and in other war-welfare organizations.

A full measure of credit should be given for the valuable service rendered by the agents of the great industrial companies, the Metropolitan, Prudential and John Hancock, which undertook to sell War Savings Stamps to their industrial policyholders. The Metropolitan alone has already sold over 100 million dollars in stamps.

In short, the life insurance companies have given the Government every possible assistance with men, money and credit. They have initiated and put into effect many plans to assist in the great drives and a very large number of the officers and representatives of the companies have given lavishly of their time and their money, as others have done, to serve the Government and the nation in the great war. This was a patriotic duty which they were glad to render and they ask for no especial credit for performing it.

ASSISTED GOVERNMENT WAR-RISK PLAN

Your life insurance companies also gave the Government the knowledge and experience wherewith it established its insurance plan for our soldiers and sailors—a national service of no small magnitude. It is well that you should know that when government insurance for the fighting forces was suggested (which

is in addition to the new pension or compensation benefits), the companies were prepared to perform this patriotic service at cost, if guaranteed against loss and that when the Government decided to establish an insurance bureau of its own to carry out this great task, the insurance companies promptly came to its assistance.

They publicly commended the splendid generosity of the Government and urged the men to accept it. When it was found necessary to make a solicitation drive to induce the soldiers to accept it in large numbers, life insurance men were called upon to assist in the work and they responded promptly and successfully.

The beneficent institution of life insurance as it now exists is so great and so well fortified in public confidence as a result of the extent, value and dignity of its service to humanity and to the American people that incorrect public statements cannot seriously affect it. It may be well, however, as a matter of information, to invite attention to the erroneous impressions that have been allowed to go out in news items regarding some phases of this subject of government insurance for our soldiers and sailors. The impression was created at the outset that the life insurance companies were, for competitive reasons, opposed to government insurance of soldiers and sailors, and also the impression that the government has discovered a new method of insuring lives that could materially reduce the cost to the public. Such statements or inferences are not merely misleading, but absolutely without any foundation in fact.

INSURANCE NOT SUBSTITUTE FOR PENSIONS

Another erroneous impression which many editors and a large number of people have gained is that the Government life insurance plan was adopted to replace the old war-pension system. This entirely incorrect notion is still being given as indicated by a recent article from Washington published throughout the country. The fact is that the old pension system is replaced by a plan of compensation for death and injuries and not by life insurance. This is found in Article III of an Amendment to the Act establishing a War Risk Bureau, approved October 6, 1917, and grants "compensation for death and disability" which is a great improvement over the old pension plan, and far more generous in the sums allowed to disabled men and to the widows and dependents of those who die in the service. Life insurance benefits are pro-

vided in Article IV in the same Act and are separate and distinct, and wholly in addition to the new pension or compensation allowances. For example: A widow without children would receive under this pension or compensation section \$25 per month until her death or remarriage. (If there be one child \$35, two \$47.50, three \$52.50, four \$57.50.) If her husband had carried the maximum of \$10,000 of government life insurance, she would receive this sum in monthly instalments for a period of twenty years, the instalment amounting, with credits of interest, to \$57.50 per month. Thus the widow, if she remained single, would have a combined monthly income of \$82.50 per month for twenty years and thereafter \$25 per month for the remainder of her life. In event of her remarriage at any time the \$25 would cease, but the \$57.50 would be payable monthly for twenty years in any event.

Another fact that is so often obscured in public utterances as to be noticeable, is the provision in the law that money shall be taken from the public treasury to pay the excess insurance mortality due to war over and above that provided by the peace rates which the Government charges the soldiers. It is possible that the dissemination of these erroneous impressions is due to carelessness, but the fact is that they have to a certain degree misled public opinion, as anyone can prove by questioning a few average citizens as to their understanding of these matters. Clearly it is to the interests of the public that these misunderstandings should be corrected.

GENEROSITY OF NATION

The War Department has stated that the mortality among our fighting forces abroad from all causes was 56,000. On November 9th the Assistant Secretary of the Treasury announced that 18,000 deaths had occurred in the forces within the United States from the influenza epidemic alone. Assuming that the deaths from normal causes in these forces have been only 8,000, we have a total of at least 82,000 deaths since the plan went into effect in 1917. About 95 per cent of these deaths represent insurance claims on the Government averaging \$8,734 each. This would indicate total ultimate claims of 680 million dollars. Deducting from this the premiums paid by the soldiers and sailors which we may generously estimate at 200 million dollars, we have an apparent excess war insurance mortality to be paid from the public treasury of 480 millions.

This is a magnificent and well-merited recognition of the services of our heroic defenders, and it must be gratifying to every patriotic American that Congress has dealt so generously with them in this matter of compensation and insurance.

You should understand, however, that no new method has been found by the Government to lower the cost of life insurance, but that the low premium charged our soldiers and sailors is made possible by the patriotic contribution of public funds by Congress. Without the aid of these funds the Government would of course be obliged to charge adequate rates, as the life insurance companies are obliged to do.

SOLDIERS, HOLD FAST TO YOUR INSURANCE

Insurance men and others now have an opportunity to render an additional service to our soldiers and sailors by advising them when they leave the service to retain their government insurance and as soon as their circumstances will permit to change their present temporary term insurance to the permanent or level premium form, a privilege which they enjoy under the law for the period of five years after the official declaration of peace. The management of the War Risk Bureau at Washington in its efforts to give our soldiers and sailors the fullest measure of protection under the law are entitled to this assistance and support from you for the reason, which is well known to insurance men, that a vast number of these young men when released from war service will unwisely drop or lapse this insurance. Every citizen, therefore, who wishes to encourage unselfish thrift, who wishes to see the dependents of our soldiers and sailors protected, and who believes that life insurance is an important and necessary factor in promoting the comfort and happiness of the nation, should join in an effort to induce our demobilized fighting forces to hold fast to their government insurance which the people have so generously provided for them.

GOVERNMENT OWNERSHIP OPPOSED

We occasionally hear discussed the possibility of the Government taking over the institution of life insurance. This, however, seems so illogical and remote a possibility as to scarcely call for serious consideration, but if it should eventually be done, the same provision for reaching into the public treasury must be made if the Government is to give the public the same highly efficient service (including a great and necessary army of skilled thrift missionaries) that America's great institution of life insurance is now giving. This is

true because no government plan to insure the public, however ably or honestly managed, can possibly give this same quality of service at as low a cost as it is now being furnished by the companies.

To my mind it is impossible to manage any business organization under political direction as efficiently and cheaply as it can be conducted under private management where skill and experience is employed without favoritism and where discipline, effort and *esprit de corps* can be kept at a much more effective level than is possible among politically selected or controlled industrial forces.

The present proposal of a policy of government ownership of certain private enterprises, as indicated, for instance, by the resolution recently introduced in the United States Senate, which attempted to define its scope, can only be characterized as state socialism. It is at least the entering wedge which if allowed to develop can only lead to the complete overthrow of representative democracy. It will turn our country into a bureaucracy far more oppressive and destructive to human progress than the autocracy which has just been overthrown. It would, to a great extent, crush the splendid American spirit of enterprise, and individual ambition to mount the rounds of the ladder, because under such circumstances a large part of our population would become government employees—mere cogs in the wheels of a great political machine—serving under masters selected for political reasons.

I know of no reform needed in our transportation system or any of our other public service or large commercial enterprises that cannot be corrected by private management under government regulation and control. If, for instance, it is argued that the Government, with supreme power, is not able properly to regulate or supervise our railroads, how can it be argued that it is qualified to assume the far graver responsibilities of their actual management?

Government ownership is purely a Red Flag remedy. It is unnecessary and un-American. In my humble judgment the American people will not adopt it as an established policy.

REMEMBER THESE THINGS

In conclusion I would urge every one of you, American people, to realize the great variety and universal character of the service life insurance is rendering the country. It reaches virtually every nook and cranny of the nation where a human habitation is found.

It is indeed difficult to get out of sight of evidences of its service when once familiar with them. You take a journey; and through loans and investments of reserves and other funds you find insurance savings serving the nation in the construction of the railroad train in which you ride and in the track and bridges beneath it and in the great terminals which it enters. You see them developing farms, and in the cities and towns which you pass, great business structures, trolley lines, electric light systems and other important enterprises. You also see life insurance savings and service in the construction work you may observe in public highways, in court houses, school houses and other public buildings. You see them in the ship yards, in the arsenals, in the army camps and in all kinds of local, state, and national governmental enterprises for which bonds are issued.

You see them in thousands upon thousands of comfortable little homes which you pass and which have been saved or built by life insurance money loaned, or paid in death claims. You see them in our schools and colleges where a great scattered army of the youth of the land are being educated with insurance money provided by prudent fathers who have passed on. And you see in every-day life evidence of the great service of life insurance to our people in the cheerful, hopeful, contented look and buoyant spirit of the nation at large.

* * * * *

In this brief message many interesting factors necessarily have been omitted, but life insurance men are familiar with every detail of the wonderful collective service which the institution of life insurance is rendering the nation, and I am directing their attention to it with the hope that they will see the wisdom of constantly carrying this important message into the homes of the land and storing it in the minds of our people.

Now is the opportune time, for life insurance has never been better appreciated, safer, or more popular than it is today.

*Resolution adopted by the Twelfth Annual Convention of
the Association of Life Insurance Presidents at New
York, December 6th, 1918.*

RESOLVED, That the Association of Life Insurance Presidents, in annual convention assembled, hereby expresses its opinion that it is to the advantage of every soldier and sailor to continue to keep in force such insurance as he may have effected under the Federal War Risk Insurance Act, and hereby requests all life insurance companies to impress upon all members of their home office and agency organizations to do everything in their power to urge such soldiers and sailors to continue their government life insurance, and to recommend to them that they convert such temporary government insurance at the earliest possible opportunity into one of the permanent plans provided for by the War Risk Insurance Act.

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